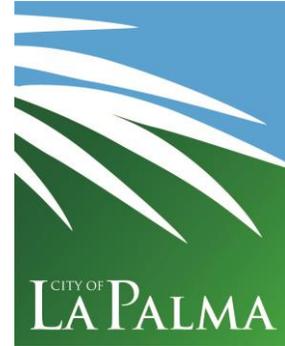


City of La Palma

Agenda Item No. 8



MEETING DATE: May 2, 2017
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBMITTED BY: Sea Shelton, Administrative Services Director
AGENDA TITLE: Presentation of Proposed Fiscal Year 2017-18 Budget

RECOMMENDED ACTION:

It is recommended that the City Council receive the Staff presentation on the Proposed FY 2017-18 Budget and provide direction for any changes to be made for the June 6 Public Hearing.

BACKGROUND:

FY 2017-18 Budget

After years of budget cuts and continual cost containment efforts, the City will finally have some financial relief with the added revenue from passage of the new Transaction and Use Tax. The upcoming fiscal year will be the first in which a full year of revenue will be received from the new tax that was passed by La Palma voters in November 2016 and went into effect April 1, 2017. Although the City has received revenue estimates from its tax consultant and anticipates the additional revenue will be substantial enough to provide more financial flexibility than the City has experienced in several years, without any past Transaction and Use Tax revenue history to firmly back up estimates and the need to develop a plan to address the City's unfunded retirement obligation with CalPERS, the FY2017-18 Draft Budget has been developed with consideration given to balancing core City services while continuing to be fiscally conservative.

Although the City knew that a plan to address its unfunded pension obligation would need to be formulated, a decision made by the CalPERS Board of Administration in December 2016 to lower its discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years made the issue even more of a priority. The change in the CalPERS discount rate will have a substantial financial impact on the City and without action early will make it more difficult to balance budgets in the future years. In a proactive move to make a significant impact on the City's unfunded pension obligation, the City Council at the April 25 Budget Workshop came to a decision to make two additional upfront payments over two years to CalPERS. The General Fund Reserve Policy will be modified to require a minimum Reserve of 50% of General Fund expenditures. The current policy requires a total of \$10 million which represents approximately 100% of General Fund expenditures. The modified reserve policy, which will require \$5.1 million in General Fund reserves for FY 2017-18, will unencumber \$4.9 million. Based on recommendations

by the Government Finance Officer Association (GFOA), an agency with moderate to high financial risk should set aside 25-36% of general fund expenditures in reserves. Neighboring cities average a 25% general fund reserve level. The City Council's direction for a 50% general fund reserve level is very conservative and in line with the City's history of being fiscally responsible. The City Council also directed that part of the changes to the reserve policy would be language to require some of the expected future savings from making the CalPERS pre-payment be set aside for non-ongoing expenses. Updated financial policies and a FY 2016-17 budget adjustment request for the first \$2.5 million payment will be brought to the City Council at the May 16 meeting.

A payment of \$2.5 million is planned for FY 2016-17 and a second payment of \$2.5 million is budgeted in FY 2017-18. Although included in the FY 2017-18 budget, the second payment will not be made until after mid-year review. Should the City's financial condition continue to look stable and several months of actual revenue from the new Transaction and Use Tax have been received, City Council will make final approval of the second \$2.5 million payment. By making large additional payments towards the unfunded pension obligation, the General Fund is expected to have continued surplus years for the next 10 years and beyond. If the City were to pay its obligatory payments status quo, it is estimated that it would be in a deficit situation by FY 2024-25. Early estimated savings to the General Fund by making the proposed upfront payments is \$4.0 million through FY 2027-28. More accurate savings estimates will be available once payments are made and CalPERS is able to recalculate the City's unfunded pension obligation and payment schedule.

With these changes, the estimated beginning unassigned general fund balance for FY 2017-18 is \$3.4 million. At the April 25 Budget Workshop, the City Council directed \$250,000 from unassigned general fund monies, in addition to the already budgeted \$50,000, be allocated to a new Civic Center Replacement Fund. The purpose of the fund would be to set aside capital for a new Civic Center in 20-years. The Council also directed that the City's financial policies be updated to allow for the \$3.9 million owed to the City from the former Redevelopment Agency be allocated to the Civic Center Fund as those loans are repaid.

The estimated FY 2017-18 General Fund has an estimated deficit of \$1.9 million due to the inclusion of the second \$2.5 million payment and additional transfer to the Civic Center Replacement Fund. The main source of funding for the additional CalPERS payment would be from the unassigned general fund balance. Actual FY 2017-18 General Fund Operating Expenditures are \$855,900 less than projected revenues.

DISCUSSION

Revenue Estimates

Estimated FY 2017-18 General Fund revenues are \$11,508,300, which is a 12.6% increase over projected FY 2016-17 revenues. The City's historical three largest revenue categories have been Property Tax, Sales Tax, and Utility User Tax. As stated, FY 2017-18 will be the first full fiscal year in which the City will receive the new Transaction and Use Tax. As a result, Transaction and Use Tax revenues, estimated at \$1.35 million, will supersede Utility User Tax (UUT) which is estimated to bring in \$969,000 in FY 2017-18.

Revenue assumptions for FY 2017-18 include:

- Secured Property Tax increase by 3%, overall Property Tax revenues increase of 2.5%

- Sales Tax Revenues increase by approximately 6% primarily due to anticipated increases in fuel prices
- Utility User Tax (UUT) continues to be levied at 5% and expected rise by 2% due to expected electricity rate increases in future years.
- Licenses & Permits down 7% as building activity levels off after 2 years of higher than average activity
- Intergovernmental revenue down 88% primarily due to cuts in State Peace Officer Standards and Training (POST) reimbursements

Revenue Overview			
	Fiscal Year 2016-17 Projected	Fiscal Year 2017-18 Proposed	% Change Prior Yr Projected
Revenues by Type:			
Property Tax	3,510,900	3,597,100	2.5
Sales Tax	2,040,000	2,180,000	6.9
Transaction & Use Tax	275,000	1,350,000	390.9
Utility Users Tax	950,000	969,000	2.0
Residual Property Tax	220,000	133,600	(39.3)
Franchise Fees	416,000	430,000	3.4
Transient Occupancy Tax	370,000	375,000	1.4
Licenses and Permits	376,000	349,200	(7.1)
Intergovernmental	17,020	2,000	(88.2)
Charges for Services	547,725	505,000	(7.8)
Fines and Forfeitures	120,200	130,200	8.3
Use of Money and Property	377,600	405,000	7.3
Other Revenues	412,775	494,500	19.8
Interfund Transfers	587,700	587,700	-
Total Revenues	10,220,920	11,508,300	12.6

Proposed Expenditures

As previously indicated, the FY 2017-18 proposed budget was developed with consideration given to balancing core City services while continuing to be fiscally conservative. Proposed General Fund Expenditures for FY 2017-18 are \$13,402,400. As previously discussed, a \$2.5 million one-time payment to CalPERS and an additional \$250,000 transfer to the new Civic Center Replacement Fund have been included in the budget. Actual FY 2017-18 General Fund Operating Expenditures without these additional payments are \$10,652,400 which is a 4.4% increase over projected FY 2016-17 expenditures. Much of the increase is a combination of one-time costs for much needed maintenance at the Civic Center that has been deferred a number of years, increases to ongoing service contracts such as animal control and crossing guard services, personnel reclassification due to restructuring of duties throughout the organization, and other miscellaneous new ongoing costs. Some expenditure reductions that will offset some of the additional costs include lower personnel costs for recently hired employees filling vacant positions and use of special revenue accounts for some one-time costs.

A budget summary for Fiscal Years 2017-18 and 2018-19 is provided below to provide a broad overview of the City's projected short term fiscal condition.

City of La Palma Budget Summary			
Acct Code	Department Name	FY2017-18	FY2018-19
		Proposed	Estimate
001-110	CITY COUNCIL	\$ 63,600	\$ 65,000
001-120	CITY MANAGER	308,600	313,200
001-130	LEGAL SERVICES	168,800	148,800
001-150	CITY CLERK	92,800	110,500
	GENERAL GOVERNMENT TOTAL >	\$ 633,800	\$ 637,500
001-140	ADMINISTRATIVE SERVICES - ADMINISTRATION	152,400	159,000
001-160	FISCAL SERVICES	359,900	359,300
001-170	HUMAN RESOURCES*	4,010,300	1,747,600
001-180	TECHNOLOGY & COMMUNICATIONS	317,300	309,400
	ADMINISTRATIVE SERVICES TOTAL >	\$ 4,839,900	\$ 2,575,300
001-210	POLICE ADMINISTRATION	\$ 547,000	\$ 569,300
001-220	OPERATIONS MANAGEMENT	289,600	305,900
001-235	PATROL	2,261,000	2,384,100
001-240	SERVICES DIVISION MANAGEMENT	198,400	208,100
001-250	COMMUNITY EDUCATION	72,300	79,600
001-260	INVESTIGATIONS	581,700	610,000
001-270	RECORDS & COMMUNICATIONS	642,700	678,000
	POLICE TOTAL >	\$ 4,592,700	\$ 4,835,000
001-310	COMMUNITY SERVICES ADMINISTRATION	\$ 331,100	\$ 342,700
001-320	HEALTH & WELLNESS	148,500	149,000
001-330	RECREATION FACILITY OPERATIONS	254,100	269,800
001-340	SPECIAL EVENTS	110,000	113,300
001-350	YOUTH & FAMILY	229,600	245,000
001-370	CITY-WIDE MAINTENANCE	406,300	319,600
001-380	ENGINEERING	89,000	93,200
001-390	PARKS & MEDIANS	219,500	220,500
001-400	STREETS	304,400	307,200
	COMMUNITY SERVICES TOTAL >	\$ 2,092,500	\$ 2,060,300
001-510	COMMUNITY DEVELOPMENT ADMINISTRATION	\$ 105,100	\$ 106,900
001-520	BUILDING AND SAFETY	143,700	143,700
001-530	CODE ENFORCEMENT	123,300	113,100
001-540	PLANNING	121,400	128,500
	COMMUNITY DEVELOPMENT TOTAL >	\$ 493,500	\$ 492,200
	Expenditure Subtotal Before Transfer Out >	\$ 12,652,400	\$ 10,600,300
	Transfers Out** >	\$ 750,000	\$ 500,000
	EXPENDITURE GF TOTAL >	\$ 13,402,400	\$ 11,100,300
	Projected GF Revenues >	\$ 11,508,300	\$ 11,866,400
	Surplus(Deficit)	\$ (1,894,100)	\$ 766,100

*A \$2.5 million one-time additional payment to CalPERS toward the City's unfunded pension obligation is included in the Human Resources budget

**Transfers Out include: \$450,000 to COR; \$300,000 to Civic Center Replacement Fund

Long Term Forecast

Assumptions included in the long term forecast include:

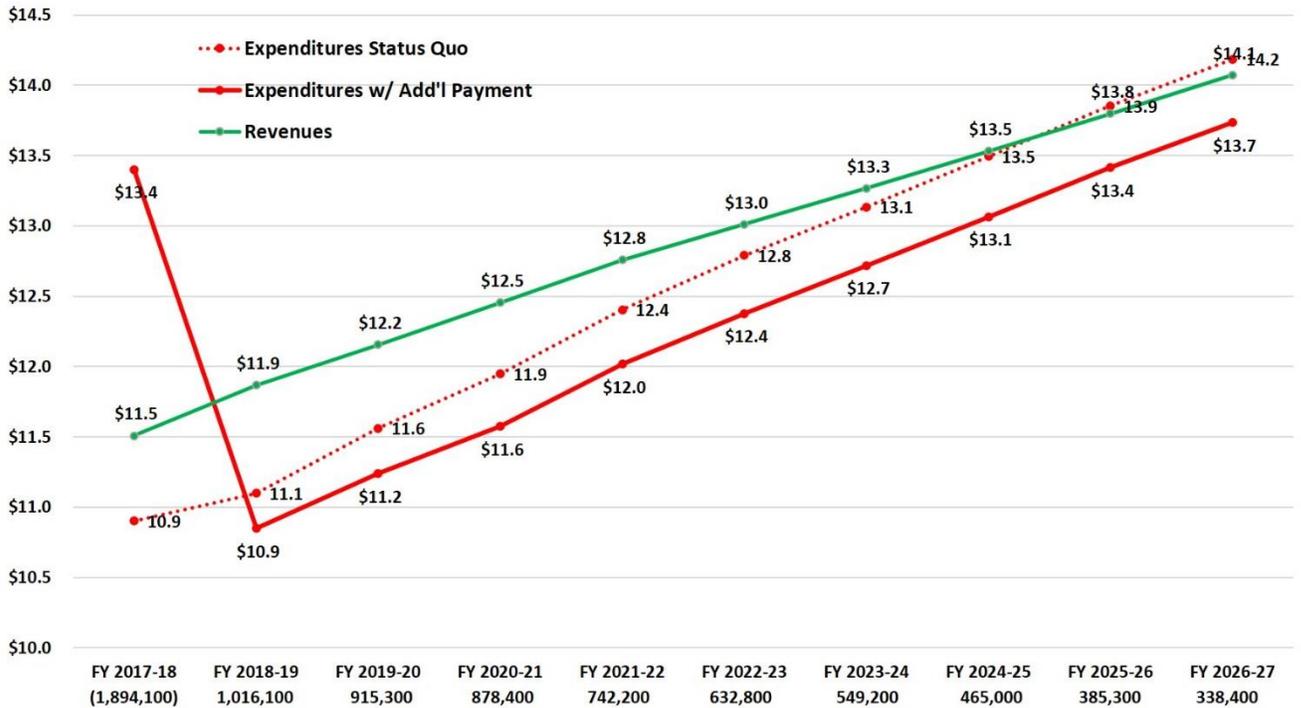
Revenues

- Secured Property Tax revenues are projected to increase at 3% through FY 2021-22 and then to 2.4% from FY 2022-23 and beyond
- Sales Tax are projected to increase 3% through FY 2021-22 and then 2% through FY 2025-26
- Utility User Taxes are assumed to increase 2% per year at the maximum 5% levy rate; annual increases are anticipated due to scheduled electric rate increases.
- Most other revenues are projected to grow at 2% based on a 20 year CPI average unless other factors are known

Expenditures

- Expenditures are forecast as known for the next two years and then at a 2% increase (20 year CPI avg.) unless other factors are known
- Estimated CalPERS unfunded obligation payments include changes to the discount rate from 7.5% to 7% and estimated effect of lump sum payments made in FY 2016-17 and 2017-18. More exact estimates will be available once lump sum payments are made and CalPERS is able to recalculate the City's unfunded pension obligation and payment schedule.
- CalPERS Retirement "Normal" costs include anticipated employer rate increases for next four years and then at a 2% increase
- In Years 1-2 Personnel costs are forecast with proposed position reclassifications but no cost of living increases. For forecasting purposes, years 3-10 show a 2% increase annually. Any salary or benefit changes due to ongoing labor negotiations will be included in the Budget once negotiations are complete.

10 Year General Fund Financial Forecast



The projected ten year forecast shows surpluses through the period with the upfront payments to CalPERS for the unfunded pension obligation. Without the additional CalPERS payments, there would be surpluses for 8 years and deficits would begin in FY 2025-26.

SUMMARY:

Updated financial policies and a FY 2016-17 budget adjustment request for the first \$2.5 million payment to CalPERS will be brought to the City Council at the May 16 meeting. A public hearing is scheduled for June 2, when it is anticipated that the City Council will approve a final budget document for FY 2017-18.

The City Manager’s Budget Message, which will be included with the June 2 document will provide an overview of the Proposed Budget, the challenges facing the City, and the many accomplishments achieved and anticipated for the organization. Carryover items where known have been included in the document. Additional carryover items will be brought forward as needed after the start of the new fiscal year.

FISCAL IMPACT:

General Fund Revenues are proposed to be \$11,508,300 with proposed expenditures at \$13,402,400. The estimated FY 2017-18 General Fund has an estimated deficit of \$1.9 million due to the inclusion of the second \$2.5 million payment and additional \$250,000 transfer to the Civic Center Replacement Fund. Without these additional one-time payments, actual FY 2017-

18 General Fund Operating Expenditures are \$855,900 less than projected revenues. The main source of funding for the additional CalPERS payment and the Civic Center transfer would be from the unassigned general fund balance. The estimated beginning unassigned general fund balance for FY 2017-18 is \$3.4 million.

APPROVED:



Administrative Services Director

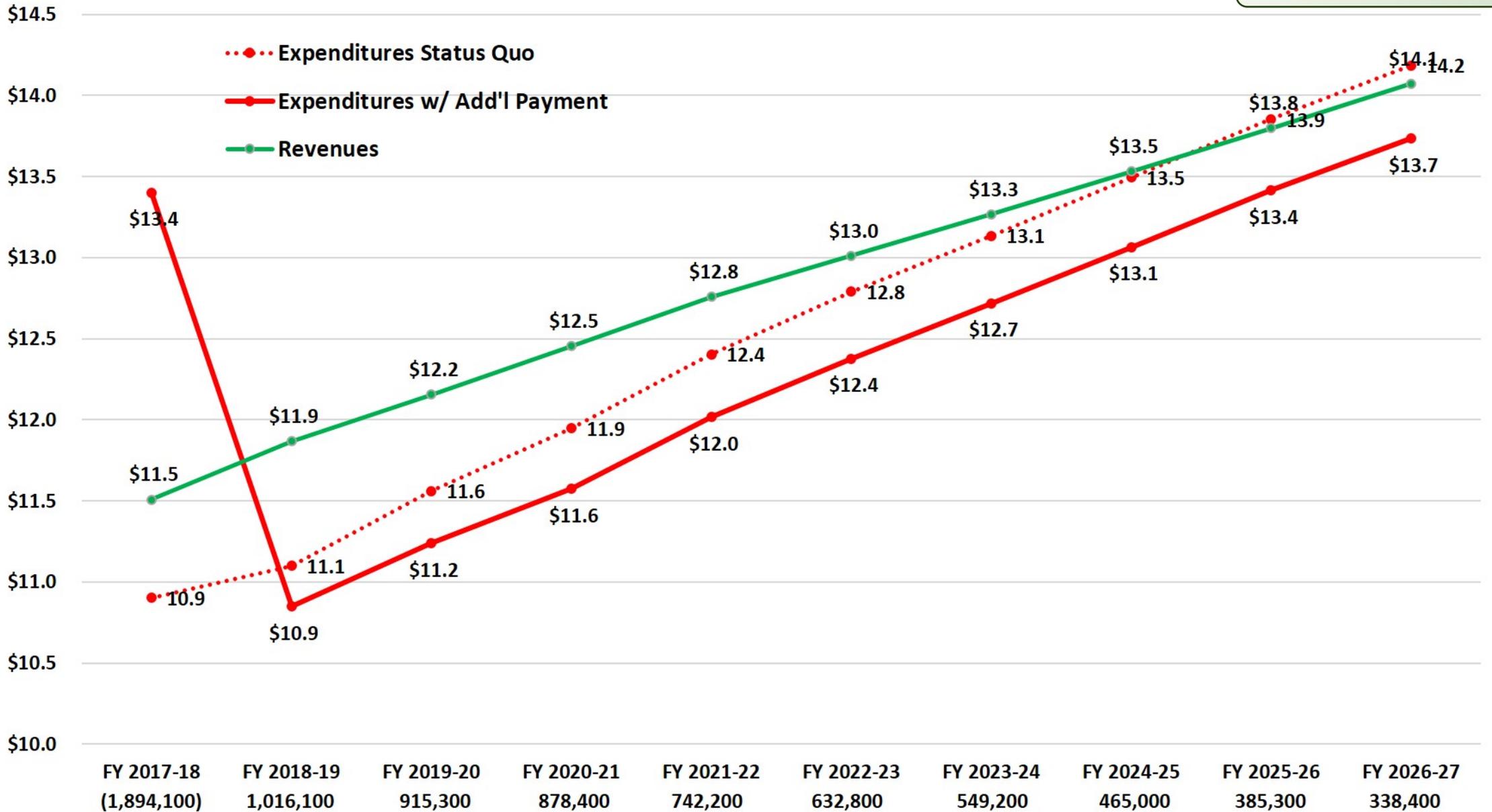


City Manager

- Attachments:
1. 10-Year General Fund Long Term Forecast
 2. Complete Proposed Fiscal Year 2017-18 Budget

10 Year General Fund Financial Forecast

Attachment 1





Due to the Large Size of Attachment 2, the Proposed Fiscal Year 2017-18 Budget, Please click on the LINK below to be redirected to the Document

Attachment 2

Proposed FY 2017-18 Budget

(File is large and may take a while to open)